

Encore

Continued from page 3—

tion Hanifen Imhoff Inc., sees pay services becoming somewhat more aggressive in buying product they feel will "distinguish themselves from the others," but nothing near the late-1980s bidding frenzy.

"We always like to stir up the pot a little bit," joked John Sie, Encore chairman and CEO. "Things were too lethargic."

Two-year-old Encore has an estimated 3.9 million pay units, which puts it a distant third compared with Time Warner Inc.'s HBO with 17.4 million pay units and Viacom International Inc.'s Showtime with 10 million pay units.

Encore is a single channel with feature films gleaned from the 1960s, '70s and '80s at a monthly subscriber fee of \$1 to \$3 a month, far less than the \$8-or-more monthly tab of an HBO or Showtime.

Encore seems to be raising its sights with its grab of fresh product from New Line and Universal films for Encore's new and yet-to-be-named channel scheduled for January. With the cable industry expecting to squeeze more channels through wires through digital transmission, Encore said it hopes to launch six additional thematic channels in the foreseeable future (HR 5/26).

"This agreement, coupled with our recent exclusive Universal output agreement and major agreements with Columbia/TriStar Pictures, Paramount, Fox, Metro-Goldwyn-Mayer and Warner Bros., assures Encore of sufficient high-quality product to program Encore's multiplex channels into the next decade," Sie said in a statement.

Encore's 90% owner Liberty was spun off from Tele-Communications Inc., the largest cable TV system operator, controlling service in roughly one out of every five cable TV homes. TCI president and CEO John Malone is also chairman of Liberty, reflecting strong ties between the two Denver-based companies.

The Encore deal will be more lucrative for New Line than its prior pay TV pact with Showtime, according to Michael Lynne, New Line president, and Robert Friedman, president of New Line Television. Lynne said about eight New Line releases a year qualified for pay TV licensing under the Showtime pact, but the figure should rise to 15 films a year with Encore. New Line releases about 25 films a

year theatrically, and only those releases that are supported with specified levels of theatrical marketing effort qualify for the pay TV pacts.

The \$150 million figure for 60 films over four years would translate to \$2.5 million per film for New Line, which produces films in the \$3 million-\$15 million budget range. On an annualized basis, the deal could work out to \$37.5 million a year, which would reflect about 15% of New Line's 1992 revenue of \$227 million.

New Line said the following films are expected to go to Encore:

- Michael Apted-directed "Blink" is a romantic murder thriller starring Madeleine Stowe.
- "Lane Frost," a biography of a real-life rodeo rider, stars Luke Perry, Cynthia Geary and Stephen Baldwin. The director is John Avildsen, whose credits include "Rocky" and "The Karate Kid."
- Harvey Keitel and Mimi Rogers star in "Pet," a family comedy executive produced by Ridley Scott.
- Whoopi Goldberg and Ray Liotta are featured in "Corinna, Corinna," a romantic comedy.
- Rutger Hauer stars in "Surviving the Game," an action thriller.
- "National Lampoon II."

While Encore is raising its sights to fresh-from-theaters movie product, Paul Kagan Associates Inc. analyst Larry Gerbrandt notes it still will be priced under HBO and Showtime.

"The service that might be looking over its shoulder is Showtime," said Gerbrandt, noting that the larger HBO — with \$1.44 billion in annual revenue — has deep pockets.

Showtime feels it has sufficient exclusive product from TriStar Pictures, Walt Disney Co.'s Touchstone and Hollywood Pictures divisions, Castle Rock Entertainment and several others to remain competitive.

"We're in good shape in terms of product flow," said Jim Miller, a Showtime program executive. "New Line would have been nice to have, but we didn't really need them." □

SBCA SHOW DAILY

SATELLITE BUSINESS NEWS

JULY 16, 1993

DBS Leads to Highest Attendance in Years

Whether it is a result of fear or the promise of profits, DBS has drawn record crowds to this year's Nashville show. More people stepped onto the exhibit floor yesterday than during any first day since at least 1990, according to SBCA figures. The association tallied 4,325 attendees, nearly doubling the first-day figures for last summer's Baltimore show and topping Nashville's well-attended 1990 show by nearly 600. "We're pretty much overwhelmed, but that's a nice feeling," said SBCA spokeswoman Margaret Parone. "The level of enthusiasm seems to be better than it's been in a long time." The staff has had to make last minute changes in order to accommodate the expected crowds, she said. Just last Monday, the SBCA decided to go from a 700-seat ballroom for opening ceremonies to a 1,200-seat ballroom—and yesterday morning's crowd was still standing-room-only. The SBCA also had to expand its STRIVE dealer see Attendance, page 2

INSIDE: USSB Laughs ... Keynote Eddie ... Programmers Talk Show Format

Exhibitors See Encouraging First Day

Though most show floor discussions yesterday focused on the potential of DBS, many exhibitors said C-band probably did not suffer but instead benefitted. Representatives of Thomson Consumer Electronics, DirecTv, USSB, and Primestar—all manning booths in one corner of the floor—said they were swamped with inquiries from dealers all day. And C-band exhibitors counted themselves lucky to be located near the DBS marquees. "There is no question DBS is finally coming of age, and that's drawing a lot more people to booths here," said John Kaul, of Kaul-Tronics. He and other exhibitors noted the traffic DBS generates on the floor for C-band booths is probably a preview of the consumer traffic it will drive to TVRO stores.

But on the other end of the floor, business was still steady, led by dealers looking to work all aspects of the satellite business, exhibitors said. "Dealers are finding ways to make their money, with financing and different angles," noted Tom Stanback, of DX Communications. "If DBS doesn't give them comparable margins, I think dealers are just going to use it as another tool." Based on the first day's crowd, Bob Cannistraro, of feedhorn manufacturer Robinson Satellite Communications, said the show is the best it has been in five years. "The dealers are more educated, more defined in what they want, more direct in their questions, and more serious about the answers they get at this show," he explained.

Old Customers = New Profits

Showtime Satellite Networks Dealer Seminar

Saturday, July 17, 1993, 8:00 AM until 9:30 AM

Opryland Hotel, Knoxville Room, Free Breakfast Buffet and Gifts

Join us and find out how easily you can profit on renewals with a low cost, easily executed and highly lucrative Subscriber Renewal

Program that uses both direct mail and telemarketing.



SHOWTIME SATELLITE NETWORKS.

Comedy Central Joins USSB Programming Ranks

USSB announced yesterday an agreement with Comedy Partners to distribute Comedy Central on USSB's high-power DBS service. USSB President Stanley E. Hubbard II said Comedy Central will be sold as part of the service's basic channel lineup. That group, which will retail for \$6 to \$7, also includes MTV, VH-1, Nickelodeon, and a revamped All News Channel. Comedy Partners is a joint venture of Viacom International and Home Box Office, who have both signed distribution deals with USSB for their premium services—HBO, Cinemax, Showtime, The Movie Channel, and Flix.

Hubbard also introduced USSB's dealer program and programming packages (see *Satellite Business News* show issue, p. 1). Satellite dealers selling USSB programming will earn commissions on annual and month-to-month subscriptions as well as active and passive renewals, Hubbard said. Also, USSB plans to offer the HBO and Viacom premium channels, combined with the group of basic services, in a Premium Plus package. Two other packages, HBO Plus and Showtime Plus, will offer HBO or Showtime premium channels with the basic group, Hubbard said. The three packages make USSB an easy choice for every kind of customer, Hubbard noted, because even those who subscribe to cable or to DirecTV will find USSB offers additional channels they want at affordable rates.

Attendance, continued from page 1

education courses, which were quickly sold out, she noted. "I think that's good news for the industry," Parone said.

She said the show is popular this summer for three reasons: the much-anticipated advent of DBS, the show's Nashville location, and the fact that C-band sales are healthy. Some dealers may grumble that C-band is taking a back seat to DirecTV, USSB, and Primestar, three DBS services that, along with Thomson Consumer Electronics, took out large DBS booths at one end of the show floor, Parone admitted. But she said all the hype is to be expected.

"This industry has been talking about [DBS] for 10 years, and now it's finally here," Parone said. Future shows will not be billed as C-band versus Ku-band, but instead will be called "direct-to-home," the new, generic industry catch phrase, she said. Parone did acknowledge that the SBCA could have stressed more to exhibitors that they should come "prepared for the largest show in the association's history." She anticipated that some exhibitors would run out of hand outs and other promotional materials.

WHAT'S THAT NAME AGAIN?

HBO DIRECT

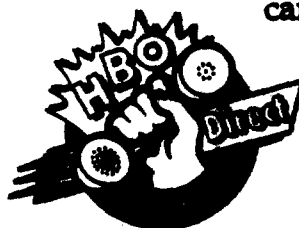
That's right. HBO Satellite Services is now called *HBO Direct*.

NOW THERE'S A NAME WORTH REMEMBERING

"Direct," as in we stand directly behind you and your business. Think of this as our renewed commitment to quality and service. To outstanding programming value... flexible packaging options...and fast, friendly service. That's a promise. *Guaranteed.*

SO BE DIRECT. TALK TO US!

Just stop by Booth 721. Or, call 1-800-HBO-TVRO toll-free. Let's talk about how we can help you serve your customers even better...



© 1993 HBO Satellite Services, Inc.
All rights reserved.

GO DIRECT TO THE GOLD!
Visit us at BOOTH 721 and ask
about the hottest DBS services
you've never
conceived!

Hartenstein Stresses DBS's Key Role in Speech

DirecTV President Eddy Hartenstein told a ballroom packed with more than 1,400 show attendees that the high-power, Ku-band system is going to change the future of entertainment television and the future of their C-band business. Hartenstein's speech, which recapped much of the information released by DirecTV during its presentation Wednesday, followed what has become the general theme of the show thus far: DBS. "By this time next year," Hartenstein joked, "we're going to start seeing a lot more DBS dishes than even Elvis sightings."

He urged the satellite dealers in the audience not to think of DBS as a curse, but as an exciting opportunity. He repeated his prediction that 40 percent of sales would initially come from TVRO dealers. "You guys have the advantage. You guys have got to be there first," he said. And he tried to reassure dealers that "Your C-band business is not going to go away overnight. Rather than pose any kind of threat, DBS will dramatically increase the volume of your business."

The opening ceremonies began with a video tape produced by Home Box Office that dealers can use as part of their sales pitch. The video demonstrates the evolution of the dish, the depth of programming, and the advantages of satellite over cable, and satellite dealers responded enthusiastically. SBCA President Chuck Hewitt told dealers that the SBCA will continue to fight for legislation on Capitol Hill that will benefit the industry. Hewitt sent a message to President Clinton saying, "We don't need to spend billions of dollars to put fiber optics all over the country, because the information superhighway is already here with satellite."

DBS Group Plans United Front Against Cable

The SBCA's DBS segment yesterday vowed to work together to fight the cable industry's "information superhighway" public relations campaign. According to Phil Lucachick, USSB's representative, the DBS members agreed to develop a strategy to promote the "Digital Skyway" DBS delivery concept to members of Congress and other federal agencies. The segment also discussed a possible program to show satellite dealers how to prosper in both the high-margin, low-volume C-band business and the coming lower-margin, high-volume DBS business, said DirecTV Vice President of Sales and Marketing Steve Ste. Marie.

Though no specific action was taken on either project, Ste. Marie said both campaigns may be discussed in more detail at the SBCA's Board of Directors meeting tomorrow.

SATELLITE DEALERS:

**Introduce your customers to pay-per-view
movies and events from Viewer's Choice
through HBO Satellite Services.**

F3, Transponder 3

To order pay-per-view movies and events call

1-800-285-8856

For residential use only



Future Panel Turns Into Free-for-All

TVRO dealers fired away yesterday at a panel of experts discussing television in the 21st century. The group of panelists predicted digital compression and interactivity will change the way people think about and use TV. Tele-Communications Inc. lobbyist Doug Watts said, "The biggest change is going to be a change in consumers." But he added that TCI is committed to the TVRO dealer as the local connection to consumers.

Thomson Consumer Electronics' Michael O'Hara said the future is the "digital skyway." But he said programmers must be certain of what consumers want before offering them interactive services and complex networks. And, he added, consumers will not demand hundreds of new services immediately.

Questions from the audience brought the talk back to the present. One retailer asked General Instrument's Jeff Roman if GI is dumping analog IRDs with its newest incentive programs. Roman responded that GI believes the C-band and analog markets are here to stay. Another asked Roman how C-band retailers can compete with DBS dealers if the price of the VideoCipher module does not come down. Roman said dealers can sell C-band on the wide variety and choice it offers the consumer. The retailer asked, "What happened to the \$150 module?" Roman tried to explain that the VideoCipher has been enhanced over the years, but he was silenced by laughter from the audience.

TVN Opens Shop, Honors Dealers

TVN Entertainment plans this fall to open the TVN Satellite Store, a home shopping program for movie, TV, music, and sports merchandise. The Store, part of TVN's Preview Channel on Telstar 303, transponder 24, will offer t-shirts, posters, jackets, hats, and other memorabilia from popular movies and TV shows. Music and concert items will also be sold. TVN President Stu Levin said the store will be the first shopping program centered around movies, sports, and home entertainment merchandise. "This will be an excellent complement to our Theatre Vision pay-per-view movie and special event programming service," Levin said.

In addition, TVN named Brent Woodis, of Home Cable Concepts, in Goodlettsville, Tenn., its top dealer for 1992-93. Woodis signed up the most customers for TVN services. Other top TVN dealers include: A-1 Electronics, Advanced Satellite Systems, Beddingfield Satellite, Consumer Cable Inc., David's Satellite, GTI Satellite Systems, Hamlet Satellite Systems, Home Cable Concepts, Home Cable Concepts/W.E.P. Electronics, Horizon Satellite Systems, Intertech, Kyle Satellite & TV Inc., Mid-Florida Wholesale Satellite, Pidgeon's Home Furnishings, R&R Satellite & Home Entertainment, Satellite TV of Indianapolis, Skywatch Satellites, Tapp's Satellite & Electronics Inc., TV Satellite Systems of Miami, and West Electronics.

DAWN OF A NEW AGE.

See The DSS Store at Booth #111

USSB

DSS

Programmers Consider Show Format Change

Members of the SBCA programmers segment yesterday discussed the final elimination of the VC II commercial data streams and possible changes to the opening ceremonies at future SBCA shows. The group learned that GI expects 60,000 to 75,000 new authorizations per month through the third quarter of this year, according to SBCA President Chuck Hewitt. No specific data stream shutoff dates were discussed, he said. The programmers group also discussed adopting an opening format similar to that used at National Cable Television Association shows. That program includes a speech by the association's president followed by a panel discussion. Sources said several SBCA programmers favor that format because it allows for a "balanced" keynote speech while providing some controversy in the discussion.

The suggested change was made after this year's keynote by DirecTV President Eddy Hartenstein and HBO's promotional video shown at the opening ceremonies January in San Diego. Sources said some programmers felt Hartenstein's remarks hawked his product too much and bashed cable. Those programmers, sources said, feel the TVRO industry cannot afford to pick fights with cable TV. DirecTV spokesman Tom Bracken later defended Hartenstein's speech. "It was not an attack on cable. We would hope the programmers would not take this personally," Bracken said. The speech was intended to show DBS as the alternative in contrast to cable. "We need to fight like hell to get our share of the market," he added.

The programmers also discussed a plan to allow General Instrument to provide subscriber zip codes to cable operators. Under the 1992 Cable Act, satellite dealers are required to provide cable operators with similar information. The FCC requires the data to determine if cable systems face effective competition and are thus exempt from some regulations.

FCC Keeps C-band Safe

Federal officials yesterday decided against tinkering with the 4 GHz band to make way for emerging communications technologies. The Federal Communications Commission's ruling ensures that C-band downlinks should be safe from interference from other microwave users. The FCC had proposed to redesignate the 4 GHz band to allow fixed microwave users in the 2 GHz band to move to make room for new technologies. But the agency rejected the plan "to minimize the possibility of harmful interference to existing satellite users."

Instead, fixed microwave services will be allowed to move to higher bands if necessary. The ruling is a big relief for the C-band industry, which lobbied hard to keep the C-band downlink frequencies clear.

Keep watching the skies.

RCN

Inside [Show] Business

Don't expect Primestar to make announcement here about future high-power satellite plans. Word last night was company is still finalizing plans and contract with Loral, so it has cancelled press conference. But Primestar is expected to migrate to high-power satellite and is making first full-blown appearance here ... PrimeTime 24 has reached agreement with General Instrument to upgrade commercial and headend decoders to VC RS system ... DirecTV contracts with five distributors who will be selling DirecTV programming to satellite dealers are exclusive and will prevent companies from also selling USSB programming. USSB will apparently sell directly to dealers and through other channels. Five distributors will also sell Thomson DBS hardware ... Speaking of DirecTV, word is company has wooed away Rick Moe, one of HBO Direct's top TVRO dealer representatives ... R.L. Drake has made aggressive price move on low-end IRDs, reducing price to distributors by as much as \$50 per unit. Other manufacturers are considering response.

Brief Items From The Show Floor

Toshiba introduced a rebate program that awards satellite dealers a \$20 coupon for each Toshiba receiver they sell. The coupons are redeemable for more equipment from Toshiba distributors. The company also promoted Joe Znidarsic, to national sales manager ... S.D. Communications unveiled several new items for the the international market. The U.S. equipment distributor for Italian DBS program distributor Europlus offers satellite pathfinders, signal strength meters, home theater TV equipment, and an international standards converter ... General Instrument's Satellite Video Center and Superstar Connection will offer a new program Aug. 1 that allows satellite dealers to sell Superstar subscriptions and authorize VideoPal pay-per-view orders through one toll-free telephone number ... Netlink unveiled its "Personal Picks" plan, which offers consumers 110 different possible package combinations. The program packager has also set up an "800" phone line with Spanish speaking operators. ... R.L. Drake introduced the Dracom 950SR international receiver with 48 pre-programmed channels for Europe's Astra Ku-band satellite and 24 pre-programmed C-band channels ... Showtime Satellite Networks will offer dealers IntroView, a two-month introductory subscription to Showtime, Showtime 2, The Movie Channel, Ultraview, and Flix, for \$29 starting Aug. 25 ... Unimech displayed two new dishes—the ASI5 and ASI6 5-foot and 6-foot aluminum mesh models, which come with optional patio rings or tripod stands ... Panasonic introduced its new PS-2000ST IRD with VC RS module and VideoPal impulse pay-per-view ordering device and a UHF remote control.

NOW WITH ESPN

TURNER
SATELLITE



AT BOTH 1103

THE BEST OF BOTH WORLDS

TURNER BEST • \$154/Yr.

Featuring 11 of the
Most Watched Networks

TURNER SPORTS • \$142/Yr.

Featuring 13 Incredible Sports
Oriented Networks

TELEVISION
FROM THE
PEOPLE
WHO KEEP
CREATING IT

BUSINESS

Fast lane to the future

Al Gore wants to remove roadblocks that limit competition on the information superhighway

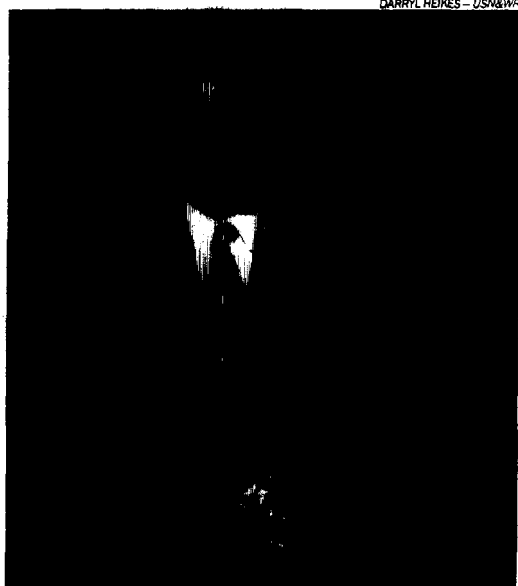
Using the scientific and technical terms that trip off his tongue so fluently, Vice President Al Gore aptly likens the present turbulent state of telecommunications to the "phase change" that occurs when water changes from solid to liquid as it melts. Telecommunications policies are now a complex mixture of robust competition for long-distance telephone service, monopolies for local phone service and exclusive franchises for cable operators. President Clinton and Gore are committed to removing many of the legal and regulatory

"How do we get there from here?"

This week in California, Gore is scheduled to detail the administration's plans to manage the phase change. He has already spelled out the broad outlines: promote and protect competition, encourage private investment, provide open access to the network and protect the long-standing policy of universal service that, through subsidies, has made phones affordable for nearly everyone. Achieving those laudable and widely supported objectives in the face of fast-moving and competing interests, however, will be excruciatingly difficult.

Just how difficult was underscored last week when MCI, the nation's second-largest long-distance company, declared that it was invading the monopoly turf of the big regional telephone companies, or Baby Bells. With a \$2 billion investment, MCI will bypass local phone systems in 20 of the nation's largest cities to connect businesses directly to its long-distance network. In this way, MCI—and its competitors like AT&T—will be able to avoid the access fees that local phone companies now charge to route long-distance calls to their final destinations. These fees, MCI says, amount to 45 cents of every dollar the company takes in. The local phone companies, however, use those access charges in part to subsidize low residential rates.

And, argue the regional phone companies, if MCI and other companies, such as wireless-phone providers and cable systems, can offer local service, they ought to be able to provide long-distance, now prohibited. Not yet, retorts MCI Chairman Bert Roberts, because

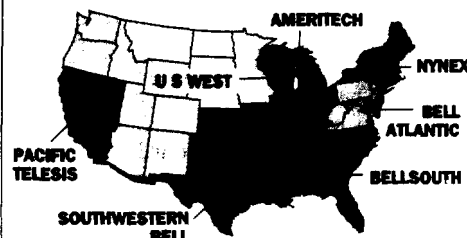


Plugged in. Gore speaks the digital language.

roadblocks that stand in the way of the emerging, competitive information superhighway—a thoroughfare that promises to increase America's already huge communications advantage over other nations. But, says the vice president, the key question facing government is,

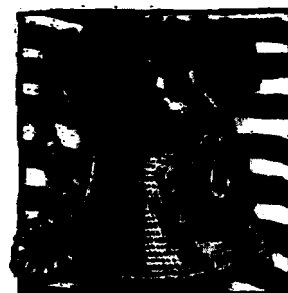
Dialing for dollars

The Baby Bells are making bold investments and forging fresh alliances. But this activity is adding financial pressure.



BELL ATLANTIC

Financial strengths: With a ratio of 35 employees per 10,000 access lines, Bell Atlantic is the most efficient operator among its peers. This helps explain why the company is so profitable. Through the first three quar-



ters of 1993, its earnings were tops among the Baby Bells, up 12.9 percent.

Financial weaknesses: Bell Atlantic has a long-term-debt-to-capital ratio of 46.9 percent compared with the Baby Bells' average of 43.1 percent. And after announcing its merger with cable giant TCI, the company's credit rating dropped from AA- to A, one of the lowest bond ratings for the Baby Bells.

Current stock price: \$56.38

52-week high: \$69.13

local companies still have "bottleneck" facilities that give them monopoly power.

MCI's thrust could place financial pressure on the Baby Bells. Existing and looming competitive threats from alternative local access providers and rate cuts by regulators have slowed the regional phone companies' annual average revenue growth from 6.5 percent in the period between 1984 and 1988 to just 2.6 percent in the past four years. At the same time, the Baby Bells are placing billion-dollar bets on the promising, but uncertain, digital future. These invest-



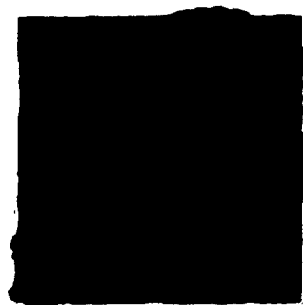
■ NYNEX

Financial strengths: Nynex has reduced its outstanding long-term debt, which dropped about \$100 million, to \$6.9 billion, during the first three quarters of 1993.

Financial weaknesses: Nynex's bottom line has been erratic. In the past five years, its net income has risen only 0.5 percent.

Current stock price: \$39.38

52-week high: \$48.88



■ BELL SOUTH

Financial strengths: BellSouth has had the second-highest revenue growth among Baby Bells over the past five years. Its debt-to-capital ratio is lowest in this phone group.

Financial weaknesses: BellSouth's profits have lagged its peers'. To cut expenses, the company is slashing 10,200 jobs by 1996.

Current stock price: \$54.63

52-week high: \$63.88



■ AMERITECH

Financial strengths: Ameritech's adjusted earnings grew 10.3 percent during the first nine months of 1993. It has the lowest long-term debt among the Baby Bells.

Financial weaknesses: To maintain its competitive position, Ameritech has been forced to reduce its payroll.

Current stock price: \$73.25

52-week high: \$91.13



■ SOUTHWESTERN BELL

Financial strengths: Southwestern has been the most profitable Baby Bell over the past five years. Nearly 25 percent of its revenues come from nontraditional sources.

Financial weaknesses: Southwestern's debt-to-capital ratio grew from 38.1 percent in 1988 to 44.4 percent in 1992.

Current stock price: \$27.50

52-week high: \$47.00



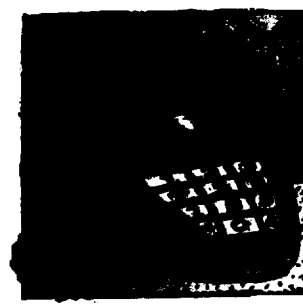
■ U S WEST

Financial strengths: A strong regional economy has helped U S West. Its number of access lines grew 3.5 percent in the third quarter of 1993—a solid performance.

Financial weaknesses: U S West's short-term debt exploded from \$582 million at the end of 1992 to \$3.1 billion in September 1993.

Current stock price: \$43.63

52-week high: \$50.75



■ PACIFIC TELESIS

Financial strengths: Pacific Telesis has focused on its core market. Over the past nine months, it has shed \$127 million in long-term debt.

Financial weaknesses: Subsidiary Pacific Bell will be cutting 10,000 jobs by 1997 to lower costs and streamline operations.

Current stock price: \$53.63

52-week high: \$59.25

ments include upgrading networks from copper wire to fiber optics and entering the cable television business. The expensive activity is affecting the regional phone companies' once pristine balance sheets. Four out of the seven Baby Bells have had their bond ratings downgraded by Standard and Poor's since 1989, and two are currently on the negative watch for a possible downgrade.

To maintain earnings that will finance expansion in the midst of a revenue slowdown, the regional phone companies are paring payrolls. Between 1990

and 1992, the Baby Bells cut 44,848 jobs. And dividend increases for the local phone companies, which averaged 9 percent from 1984 to 1988, slowed to 5.4 percent in the past four years. Says Stephen Gutkowski of Moody's Investors Service: "There is a concern that the Baby Bells' financial position could be impacted by the need to finance these risky ventures with debt capital."

Takeover. Indeed, the escalating bidding war for Paramount Communications has spawned worries among some investors. Last week, cable conglomerate

Viacom agreed to an \$8.4 billion merger with Blockbuster Entertainment. The new enterprise promptly announced that it would raise the cash portion of its offer for Paramount from \$85 per share to \$105 a share. Home-shopping channel QVC now has a chance to increase its bid for Paramount in the hotly contested auction. BellSouth has invested \$1.5 billion in support of QVC's takeover effort; Nynex, on the other hand, is in Viacom's camp and has contributed \$1.2 billion to the war chest. If Viacom and Blockbuster are successful in the Paramount fight, say

BUSINESS

analysts, Nynex stock may come under pressure; and should QVC win, Bell South's earnings could be diluted. Bell Atlantic, which has announced a \$26 billion merger with cable giant TCI, may also face earnings erosion. And Southwestern Bell's \$1.6 billion investment in a partnership with Cox Cable Communications might hurt the phone company's credit rating.

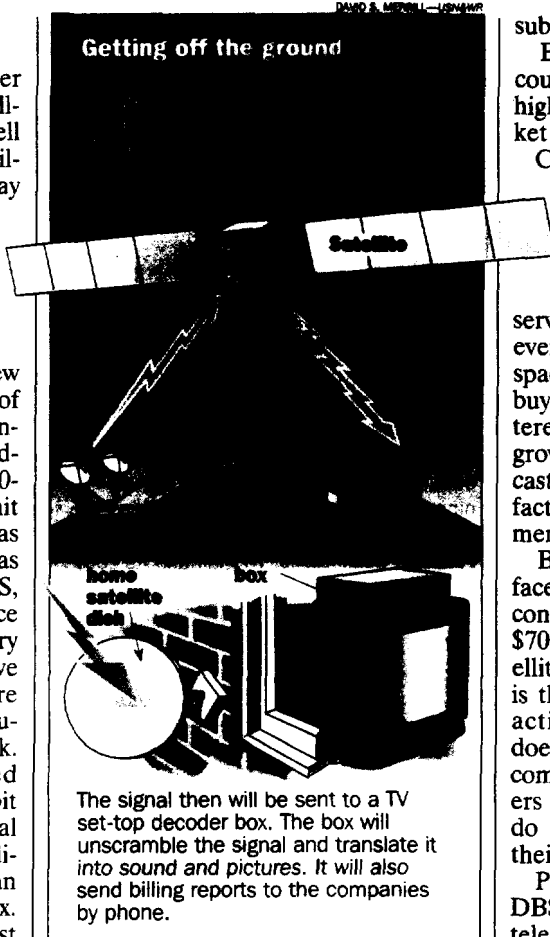
Like the regional phone companies, cable TV must now deal with new rivals. Last month, the DirecTV unit of Hughes Electronics and its partners, including United States Satellite Broadcasting, launched the first of two 6,000-pound satellites that will soon transmit 150 television channels to home antennas the size of a large pizza box. Known as direct broadcast satellite TV, or DBS, the system is scheduled to begin service in the spring—and broadcast industry analysts believe that it just might give cable TV a run for its money. "The future of cable includes competition," says Prudential Securities analyst Melissa Cook.

Signals. From a high-powered Hughes HC 601 satellite in fixed orbit 22,300 miles above the equator, digital video and audio signals will be sent directly to homes that are equipped with an 18-inch dish and set-top decoder box. The two DBS companies will offer most of the programming now available on cable systems, including CNN and the Disney Channel, in addition to 30 channels of special sports events and at least 50 channels of pay-per-view movies. And because the signals will be digital and will not have to pass through a maze of coaxial cables and amplifiers, the pictures should be as crisp as laser-disc movies.

DirecTV and Hubbard Broadcasting's USSB will be both competitors and colleagues. USSB will broadcast 25 channels from the same satellite, and subscribers will use the same equipment to receive the two services. Most DBS customers will probably end up subscribing to both.

A big potential market for DBS is homes that do not receive cable. Almost 40 percent of American households fall into this category. DirecTV and USSB may also win over disgruntled cable subscribers to their systems. Says Stanley

Getting off the ground



Hubbard, president of USSB, a family-run enterprise: "Cable has opened the door for us because they haven't done a great job." And DirecTV president Eddy Harstein is predicting that 10 percent of all American households will be

subscribers to DBS by the year 2000.

Because DBS will span the nation, it could be the vehicle that forces digital high-definition television into the market once the Federal Communications Commission sets the standard next year. HDTV is a chicken-and-egg proposition. If there are no receiving sets, broadcast stations and cable operators won't invest in the service. And if there is no service, no one will buy HDTV sets. But even limited HDTV broadcasts from space could give customers a reason to buy a new set. Once there are sets scattered across the country, there will be a growing demand for reluctant broadcasters to serve them—and for manufacturers to begin building other equipment, such as videocassette recorders.

But the \$1 billion DBS project still faces numerous hurdles. For one thing, consumers might balk at having to pay \$700 for the set-top converter and satellite dish. Another possible drawback is that DBS won't have two-way interactive capabilities. But Harstein doesn't see that as much of a shortcoming. He doesn't think that consumers will want to "use their TV sets to do things like order pizzas or balance their checkbooks."

Perhaps the biggest challenge facing DBS is that, at some point, the cable and telephone companies will probably make good on their promises and start piping out streams of video on the information superhighway. But the kind of full-blown system that can deliver 500 channels is at least several years away, most analysts agree, whereas DirecTV and USSB will be out with their 150 channels in just a

few months. "DBS has the advantage of being first with a lot of programming," says Cook of Prudential Securities. Still, no one expects DBS to completely undermine cable. But it just might provide something dear to Al Gore's heart: healthy competition. ■

BY WILLIAM J. COOK,
JIM IMPOCO AND
WARREN COHEN

Vice President Al Gore will discuss the information superhighway in a live, interactive conference on U.S. News Online on Thursday, January 13, at 5:30 p.m. EST. U.S. News Online is available on CompuServe; for a free sign-up kit for the service, call (800) 510-4247.



Dishing. Stanley Hubbard (center) links up with his father and brother.

"PLEASE STAMP"
AND RETURN
THIS COPY TO
FLETCHER, HEALD & HILDRETH
RECEIVED
SEP 29 1993

EX-PARTE PRESENTATION: MM DOCKET NO. 92-265
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

THE USSB VIEW OF PROGRAM EXCLUSIVITY
IN THE DBS MARKETPLACE
September 1993

Two copies of this document have been provided
to the Secretary of the FCC on September 29, 1993

THE USSB VIEW OF PROGRAM EXCLUSIVITY IN THE DBS MARKETPLACE

SEPTEMBER 1993

The launch of the first high-power Direct Broadcast Satellite is scheduled for mid-December this year. This first satellite will be jointly owned by Hughes DirecTv and USSB. USSB will own 5/16ths of the satellite, and Hughes will own 11/16ths. Beginning in April, DBS service from 101° W. L. will offer all consumers nationwide an opportunity to deal with an alternate source of multichannel program supply. Initially, Hughes DirecTv and USSB will make approximately 80 channels of programming available to consumers everywhere. During the summer of 1994 a second high-power DBS satellite, which will be solely owned by DirecTv, will be launched. This satellite will allow DirecTv to offer an additional 80 or so channels of program service. With the launch of the second satellite in the summer of 1994, USSB's percentage of total capacity will sink from 5/16ths to 5/32nds. While there is much talk today about the proposals for cable service to expand to 150 or more channels, the likelihood of that happening universally across the United States during the next few years is non-existent. DBS will, however, in less than a year, be offering more than 150 channels of service to all Americans everywhere.

In addition to those cable homes which will be taking service from USSB and DirecTV, there will be millions of homes which do not have access to cable which will also be taking these same services. As a result of the advent of high-power DBS and MMDS, competition for multichannel viewers, both in and outside of cabled areas, will be intense.

We believe it is imperative that there be competition within the framework of high-power DBS. In order for there to be a healthy DBS marketplace, there must be "competitive exclusivity." The law and FCC regulations allow a single entity to control all of the transponders at any one orbital location. In our opinion, it makes good sense for the law, as is now the case, to allow exclusivity within the framework of the DBS industry. This is true within the framework of the terrestrial broadcasting industry where exclusivity has helped create a competitive and diverse marketplace.

In negotiations with Viacom and HBO, USSB and DirecTv each bargained for exclusivity. The exclusive provisions in the HBO/USSB and Viacom/USSB contracts are the result of USSB's being able to convince HBO and Viacom that, among other things, due to USSB's limited channel capacity, we will concentrate our efforts on the sale of Viacom and HBO programs. We were also able to convince these programmers that we will give them more attention because they will be the "gems" of our program packaging. In addition, HBO and Viacom believe in our approach to the marketplace. We have not sought exclusive public outlets for our programming, nor will we. Unlike DirecTv, USSB's programming will be available to every DBS equipment retailer whether or not those retailers are offering DirecTv services.*

Without the right to bargain for and obtain exclusive program rights for the most important program product, it would not be possible to maintain a healthy, competitive marketplace. Imagine what could happen if exclusivity were prohibited and General Motors/Hughes Aviation-DirecTv were allowed to duplicate the popular programming which has been contracted to USSB. Not only would there be a waste of valuable broadcast spectrum as a result of the repetition of identical programming, but there would also be the very strong possibility that through "packaging practices" or predatory pricing, the smaller 5/32nd entity, USSB, could suffer irreparable damage.

* DirecTv has required, as a condition of representation, that the five distributors of RCA home receive equipment can sell only Hughes programming and not any USSB programming.

Such irreparable damage would result in a DBS monopoly and resultant loss of competitive program choices and pricing for the viewing public.

This lack of competition, if it were to come to pass, could be especially damaging to those millions of homeowners who live in non-cabled areas.

General Motors/Hughes-DirecTv has created an issue about "the poor competitive position" in which they will find themselves if they are not allowed to have access to the programming from HBO and Viacom which USSB has bargained for and obtained in a free and open marketplace. Hughes DirecTv/NRTC allege that USSB has paid exorbitant prices to HBO and to Viacom and that, therefore, USSB will not be able to offer attractive pricing to consumers. Nothing could be further from the truth! If one considers the following facts, it becomes clear that such claims are self-serving and not in the public interest. Consider, for example, that DirecTv will have the Disney Channel, TNT, Turner Classic Movies and the USA Network—all of which provide a large variety of movies. In addition, they will have more than 60 channels of exclusive impulse pay-per-view movies from Columbia/Tri-Star, Paramount Pictures, Sony Pictures, Turner MGM and Universal Pictures.* In addition, DirecTv, because of its large channel capacity, will be the only high-power DBS operator at 101° to be in a position to take the two new movie services which will be provided by Encore/TCI and Liberty. As reported by the *Wall Street Journal* on September 24, 1993, "Encore Media Corp., TCI and Liberty in January plan to launch a new service that competes directly with Viacom's Showtime movie channel and the Movie Channel...." DirecTv may choose to carry these new services, and at the start of its service, will be able to compete head to head with USSB's premium movie services, while USSB will not be in a position to compete for pay-per-view movie services because USSB does not have the channel capacity and DirecTv has exclusive contracts.

* Movies generally newer than the USSB offerings.

USSB is making every effort and is currently in negotiations with the NRTC to strike a bargain with NRTC whereby NRTC will be able to sell certain Viacom and HBO programs to the general public. In any event, it should be made clear that all Americans who will own a DBS receiver, both in and out of the NRTC territories, will have full access to the HBO and Viacom offerings from USSB. USSB has made it clear to all concerned that every DBS equipment dealer—including NRTC dealers—will be encouraged to sell USSB's HBO and Viacom program services. USSB is also in discussions with Hughes DirecTv in an effort to make it possible for each to sell some of the other's programming.

Unlike cable, which from the very first day was a monopoly, DBS will begin in a very competitive world. It is imperative that the American people be guaranteed competitive offerings from DBS. The only way this can happen is for the free and open marketplace to allow "competitive exclusivity" within the high-power DBS industry.

The Congress, in the passage of the Cable Act of 1992, was wise to provide a framework for DBS which allows for "competitive exclusivity." The language of the Act allowed Judge Sprizzo, during oral arguments in the Primestar Partners case, to say:

Page 18, Line 18 — "Exclusive contracts are not forbidden now under the law."

Page 21, Lines 2-6 — "Exclusive contracts are not forbidden now except in those situations where the Cable Act forbids them, and even then the FCC has the power to make a finding of public interest which makes them legal, as I understand the statutory scheme."

Page 22, Lines 7-11 — "You want a presumption of illegality to attach to the exclusive contract, which Congress has not done except with respect to certain types of vertically integrated contracts. You want me to, in effect, amend the Cable Act. I can't do that."

Page 22, Lines 14-17 — You want me to send the opposite signal out to the market: that exclusive contracts are bad unless the FCC says they are good, and that is not what the statute says."

Page 25, Lines 20-24 — "...If I were to find it not to be in the public interest, it would have to be on the theory that exclusive contracts with orbital providers are under all circumstances unlawful, and that is not what the statute says...."

Page 27, Lines 6-17 — Larry Sidman: "The public has the protection afforded by the Cable Act."

Judge Sprizzo: "Yes, but people have to implement that by bringing an appropriate lawsuit or bringing an appropriate FCC proceeding. Until they do that, as it stands right now, Primestar and anybody else is perfectly free to enter into any exclusive contract that does not specifically violate the terms of the Cable Act...."

Unlike cable, DBS will not be operating in a marketplace which is a de facto monopoly. In our opinion, the public interest and fairness require that the DBS marketplace be given every opportunity to begin competitively without exclusivity prohibitions. There will always be time at a later date, if circumstances dictate, for the Congress to become involved.

Respectfully,

Stanley S. Hubbard

de

Attachment: Existing DirecTv and USSB Program Contracts

DSS™ PROGRAMMING
UNDER CONTRACT AS OF 8/93

USSB

Showtime E
Showtime W
Showtime 2
The Movie Channel E
The Movie Channel W
Flix
HBO E
HBO W
HBO 2 E
HBO 2 W
HBO 3
Cinemax E
Cinemax W
Cinemax 2
Nickelodeon
VH-1
MTV
All News Channel
Comedy Central

DirecTv

The Cartoon Network
CBC Newsworld (Canada)
CNN
CNN Headline News
CNN International
C-SPAN
C-SPAN 2
Country Music Television
The Discovery Channel
Disney Channel
E! Entertainment Television
Family Channel
The Learning Channel
The Nashville Network
Northstar (Canada)
Sci-Fi Channel
Superstation TBS
TNT
Turner Classic Movies
USA Network

Pay-per-view Agreements

Columbia/Tri Star
Paramount Pictures
Sony Pictures
Turner MGM
Universal Pictures

All of this programming will be available to every DBS homeowner.